

Message Text

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SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE REVIEW OF
ICELAND, OCT. 20, 1975

REF: REYKJAVIK A-63 OF SEPT. 26 AND A-64 OF SEPT. 29;
US MISSION OECD PARIS 26465

1. REPAIRS SENT US MISSION VIA CLASSIFIED AIR POUCH PROVIDE
EMBASSY VIEWS ON ICELANDIC ECONOMY. FOLLOWING ARE SUGGESTED POINTS
FOR DISCUSSION DURING ERDC REVIEW:

2. EMBASSY AGREES THAT SECRETARIAT PROPOSALS WOULD BE HELPFUL,
ALTHOUGH PROBABLY OF LIMITED VALUE IN THE SHORT-TERM. THEY HAVE
TO SOME EXTENT BEEN PUT INTO FORCE BY GOI AND ARE THUS ACCEPTABLE.

3. CLOSER TO THE POINT IS NEXT TO LAST SENTENCE IN REFTTEL, NAMELY
THAT REDUCING INFLATION DEPENDS ON GOI ABILITY TO CONTROL WAGES
AND TO MAINTAIN ECONOMY CONSISTENT WITH MAINTAINING VALUE OF KRONUR.
SOME ICELANDIC ECONOMIC AUTHORITIES HAVE INDICATED TO EMBASSY THAT
17 PER CENT DROP IN REAL DISPOSABLE INCOME THIS YEAR MEANS THAT
SUBSTANTIAL WAGE INCREASE WILL HAVE TO BE GRANTED NEXT YEAR. HOW
WOULD THIS BE SET OFF? BY TAXES? BY DEVALUATION? PRESUMABLY NOT BY
PRODUCTION INCREASES.

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4. IS THE BUDGET JUST PROPOSED BY THE GOI REALISTIC? IT REPRESENTS A 20 PER CENT INCREASE OVER 1975 AFTER A REDUCTION OF \$28 MILLION IN SOCIAL SECURITY, SCHOOLS, SUBSIDIES, ETC. ENCOURAGING, BUT WILL PARLIAMENT SUPPORT IT?

5. MINISTER OF COMMERCE RECENTLY SAID THAT ICELANDIC PROSPECTS WERE BLEAK. HE SAID THERE IS LITTLE HOPE OF INCREASING EXPORTS SUBSTANTIALLY AND THE DEBT SERVICE WILL REACH 20 PER CENT IN THE NEXT FEW YEARS. HIS SOLUTION IS A "REDUCTION PROPOSAL," AN OUTGROWTH OF A 1972 STUDY. IT CALLS FOR REDUCTION OF THE COST OF LIVING INDEX, OF PRICES AND WAGES, TAXES, INTEREST RATES AND OTHER COST FACTORS. WILL THE GOI PROPOSE SUCH A STEP? IT DID ENFORCE SUCH A REDUCTION TO THE EXTENT OF 5 PER CENT IN 1959. IN 1974 A SIMILAR REDUCTION PROPOSAL BROUGHT DOWN THE GOVERNMENT, HEADED BY THE PRESENT MINISTER OF COMMERCE.

6. ICELANDERS DEMAND FULL EMPLOYMENT AND A HIGH STANDARD OF LIVING. ECONOMIC AND POLITICAL AUTHORITIES DISAGREE OVER HOW MUCH BELT TIGHTENING THEY WILL ACCEPT. TO CURB INFLATION WILL CALL FOR FURTHER SACRIFICE. THE PRESENT FISHING LIMITS DISPUTE MAY SUFFICIENTLY UNITE THE PEOPLE SO THAT THE GOVERNMENT CAN TAKE SOME OF THE NEEDED MEASURES TO RESTORE THE ECONOMY. THE LONG-HOPED-FOR RISE IN FISH PRICES IS NOT ON THE HORIZON.
MARTIN

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